FDIC State Profile

Winter 2004

Virginia

Northern areas of the state continue to benefit from federal defense and anti-terrorism spending, while the southern region struggles to maintain momentum.

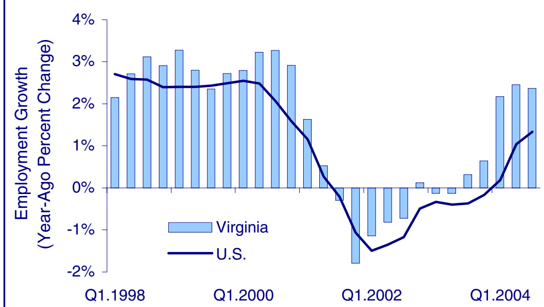
- Virginia's economy continued to expand through late 2004 at a rate well above the national average (See Chart 1). Nationally, the state was ranked sixth in terms of job growth.[1] While all of the state's metropolitan areas saw employment growth during third quarter 2004, only three exceeded the national average.

- ***Northern Virginia*** is the state's economic driver with job growth more than twice that of the nation. Although the impact of the recent recession on payrolls was severe due to heavy technology concentrations, the state rebounded nicely because of new homeland security and defense-related jobs. Economic growth across the state does not remain uniform. While Northern Virginia continues its rebound from the "tech-wreck," recovery in other areas of the state has been less impressive. This has constrained state tax revenue growth at a time when expenses continue to rise. Nationally, leading economic indicators point toward continued, though moderating, growth in 2005. Subsequently, Virginia likely can expect continued moderate payroll gains as well.

- County jobless rates remain high along the Virginia-North Carolina state line. The ***Danville*** metropolitan area continues to suffer an unemployment rate that is nearly twice the national average (See Map 1). Heavy concentrations in textiles and furniture manufacturing resulted in substantial layoffs during the past decade. The elimination of trade barriers in 2005 likely will pose continuing challenges for these industries.

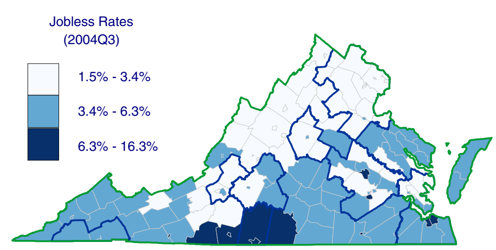
- Virginia's consumer credit quality is improving as a result of its tight labor markets and above average wages (See Chart 2). The state's personal bankruptcy filings rate per capita in second quarter 2004 dropped nearly 6 percent from the previous year. Similarly, foreclosure rates statewide showed improvement, and the per capita foreclosure rate was less than 1 percent.

Chart 1: Job Growth in Virginia Significantly Exceeds the National Average



Source: Bureau of Labor Statistics/Haver Analytics

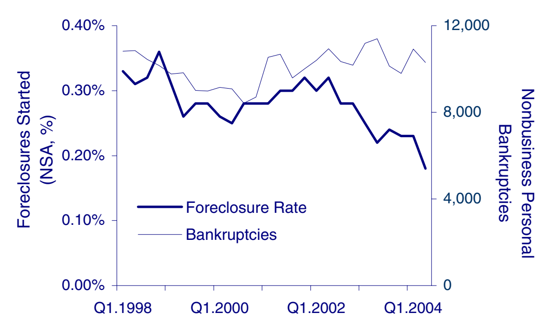
Map 1: South-Central Virginia Counties Have the Highest Jobless Rates



Note: County data not seasonally-adjusted.
Source: Bureau of Labor Statistics/Haver Analytics

Virginia = 3.4% (SA)

Chart 2: Virginia Credit Conditions Show Signs of Improvement



Source: US Courts, Mortgage Bankers Association (Haver Analytics)

[1] States with higher job growth rankings included Nevada, Utah, Hawaii, Idaho, and Arizona.

Virginia's housing markets continue to enjoy strong growth while commercial real estate conditions have improved.

- Homebuilding has been a critical component of Virginia's economic recovery. Permit issuance in the state continued to trend higher through late 2004, signaling that near record construction activity likely will persist into 2005.

- At community banks[2] in Virginia, construction and development (C&D) lending, which is primarily for residential real estate construction, grew 41 percent during the 12-month period ending September 30, 2004. This compares to a 28 percent growth rate in the year earlier period. High levels of home sales similarly reflect market resiliency. In September 2004, the number of homes placed under contract statewide was the second largest increase on record, according to the *Virginia Association of Realtors*. Home price appreciation, particularly in Northern Virginia, continues to exceed the national average.

- At the end of third quarter 2004, C&D loans accounted for 7.4 percent of the state's total assets, up from 5.6 percent in the previous annual period. In terms of capital exposure, the ***Roanoke*** MSA reported the highest C&D exposure in the state at 105 percent of capital, ranking 50th in the nation. Going forward, Virginia's residential markets may be vulnerable to any sharp rise in interest rates, although strong gains in both employment and incomes may delay any sharp changes in home sales.

- At the end of third quarter 2004, home equity loans (HEL) grew 30 percent over the 12-month period to 3.3 percent of assets, up from 2.7 percent a year earlier. While still a relatively small asset class, the potential for rising interest rates may increase the strain on some consumers through higher debt burdens.

- Commercial real estate (CRE) conditions across market types in Northern Virginia showed some improvement. Supported by relatively strong economic growth, absorption rates in the area remained positive during the first three quarters of 2004. Although vacancy rates remain well into the double-digits in the office sector, new job growth—particularly in the government, business, and professional services sectors—likely will have a stabilizing effect in the coming months.

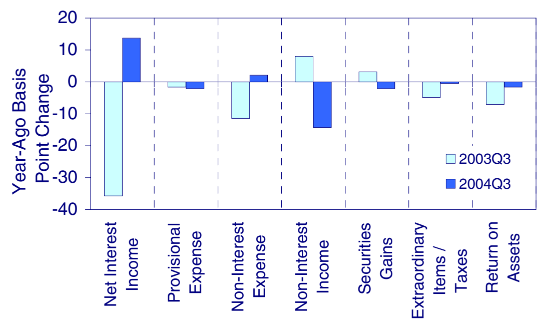
- After falling off in 2003, nonresidential loan (CRE) growth was 24 percent during the annual period, which compares to an 18 percent accretion a year earlier. As a percentage of capital, CRE represents 228 percent of the state's total equity capital, up from 204 percent last year. The bulk of the activity has taken place in the Roanoke metropolitan area, which reported a CRE capital exposure of 465 percent, 21st in the nation. Sustained economic growth will be required in 2005 if vacancy rates are expected to retreat significantly.

Virginia's larger institutions reported stronger earnings growth than community banks.

- Although still positive, earnings growth slowed for the second time in as many periods moving only 7 percent during the 12 months ending September 30, 2004. This compares to a 25 percent rate of accretion just two years earlier. Subsequently, both median net interest margins (NIMs) and return on assets (ROA) fell year-over-year to finish the third quarter 2004 slightly lower at 4.03 and 1.06 percent, respectively (See Chart 3). Earnings performance lagged, despite a 17 percent merger-adjusted growth rate in the loan portfolio as asset yields fell more than funding costs.

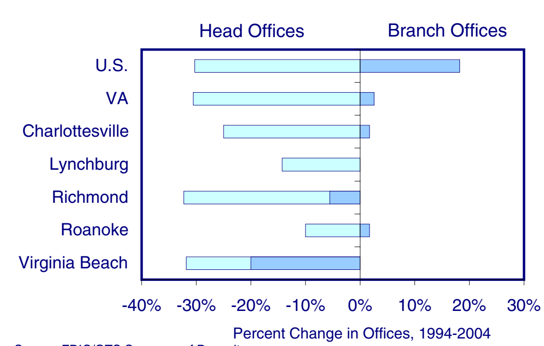
- In addition to a reduction in head offices, branching activity in Virginia has been running well below the nation during the 10-year period from 1994 to 2004. Richmond and Virginia Beach, in particular, have seen negative branch growth (See Chart 4).

Chart 3: Contributions to Return on Assets at Virginia Community Banks



Source: FDIC (Aggregate Year-to-Date)

Chart 4: Branching Growth Has Eluded the State of Virginia



Source: FDIC/OTS Summary of Deposits

[2] Community banks have assets less than $1 billion dollars and exclude denovos and specialty institutions. This group of banks has been adjusted for mergers.

Virginia at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	140	146	144	161	167
Total Assets (in thousands)	209,191,407	173,012,340	123,071,460	101,645,507	85,507,738
New Institutions (# < 3 years)	12	8	12	22	25
New Institutions (# < 9 years)	43	40	38	38	37

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	8.71	8.59	8.58	8.63	9.02

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.14%	1.40%	1.13%	1.54%	1.34%
Past-Due and Nonaccrual >= 5%	10	10	13	13	11
ALLL/Total Loans (median %)	1.17%	1.22%	1.17%	1.13%	1.15%
ALLL/Noncurrent Loans (median multiple)	2.75	2.64	2.65	2.50	2.43
Net Loan Losses/Loans (aggregate)	0.98%	1.87%	1.40%	1.06%	0.94%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	15	9	14	18	17
Percent Unprofitable	10.71%	6.16%	9.72%	11.18%	10.18%
Return on Assets (median %)	1.03	1.07	1.10	0.89	1.13
25th Percentile	0.74	0.61	0.79	0.40	0.69
Net Interest Margin (median %)	3.93%	3.92%	4.19%	4.00%	4.30%
Yield on Earning Assets (median)	5.54%	5.94%	6.78%	7.80%	8.12%
Cost of Funding Earning Assets (median)	1.67%	1.97%	2.61%	3.98%	3.95%
Provisions to Avg. Assets (median)	0.17%	0.20%	0.21%	0.18%	0.17%
Noninterest Income to Avg. Assets (median)	0.64%	0.63%	0.63%	0.63%	0.60%
Overhead to Avg. Assets (median)	2.90%	2.89%	2.92%	2.99%	2.95%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	84.42%	78.59%	77.26%	79.16%	80.71%
Loans to Assets (median %)	71.00%	65.50%	66.21%	66.63%	67.36%
Brokered Deposits (# of Institutions)	32	30	28	25	18
Bro. Deps./Assets (median for above inst.)	5.35%	2.68%	2.69%	7.07%	6.67%
Noncore Funding to Assets (median)	17.96%	16.24%	15.72%	15.01%	15.26%
Core Funding to Assets (median)	70.10%	72.82%	73.44%	74.28%	73.29%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	15	18	20	20	21
National	38	38	35	36	36
State Member	71	74	74	88	91
S&L	3	3	3	3	4
Savings Bank	13	13	12	13	14
Stock and Mutual SB	0	0	0	1	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	58	16,348,379	41.43%	7.82%
Washington DC-MD-VA-WV PMSA	32	131,265,498	22.86%	62.75%
Richmond-Petersburg VA	18	52,163,400	12.86%	24.94%
Norfolk-Virginia Bch-Newport News VA-NC	14	4,821,461	10.00%	2.30%
Roanoke VA	6	1,538,189	4.29%	0.74%
Lynchburg VA	5	947,963	3.57%	0.45%
Danville VA	4	1,179,538	2.86%	0.56%
Charlottesville VA	2	355,296	1.43%	0.17%
Johnson City-Kingsport-Bristol TN-VA	1	571,683	0.71%	0.27%